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# USSR Report

ECONOMIC AFFAIRS

(FOUO 6/81)



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USSR REPORT  
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ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

DEVELOPMENT OF ECONOMIC MECHANISM DESCRIBED

Moscow VOPROSY EKONOMIKI in Russian No 2, Feb 81 pp 140-143

/Review by S. Kamenitser of the book "Khozyaystvennyy mekhanizm na sovremennom etape" (The Economic Mechanism at the Present Stage) edited by Corresponding Member of the USSR Academy of Sciences P. G. Bunich, Moscow, Izdatel'stvo "Ekonomika", 1980, 232 pages

/Text The Communist Party and the Soviet Government have always devoted enormous attention to the improvement of the economic mechanism of the mature socialist society. The decree of the CPSU Central Committee and the USSR Council of Ministers of 12 July 1979, "On Improving Planning and Strengthening the Influence of the Economic Mechanism on Increasing Production Efficiency and Work Quality." also fully conforms to these goals.

The authors of the book being reviewed<sup>1</sup> set as their task to show the objective validity of the measures called for by the decree, to reveal the content of the most important of them and to state opinions on the further prospects of the improvement of the economic mechanism of the management of the Soviet economy. The work can be conditionally divided into four sections. The theoretical problems connected with the development of the economic mechanism are examined in the first section (Chapters 1-4). The main blocks of the economic mechanism are revealed in the second section (Chapters 5-9). The third section (Chapters 10-12) is devoted to the analysis of the organizational questions connected with the development of the economic mechanism. The trends of the further development of the economic mechanism in the CEMA member countries and the means of improving the territorial aspect of the economic mechanism are examined in the fourth section (Chapters 13-14).

A merit of the monograph is the combination in it of thorough elaborations of political economic problems and the characterization of the most important provisions of the decree of the CPSU Central Committee and the USSR Council of Ministers with the posing of new problems of the further development of the economic mechanism at the present stage of the development of the economy.

1. The collective of authors: L. I. Abalkin, A. G. Aganbegyan, V. V. Adamchuk, P. G. Bunich, A. P. Vavilov, O. V. Kozlova, A. A. Modin, G. B. Pravotorov, A. M. Rumyantsev, V. V. Sitnin, P. A. Skipetrov, T. S. Khachaturov, N. P. Fedorenko, S. A. Kheynman and S. I. Shkurko.

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Perhaps the main feature of the measures now being implemented on improving the economic mechanism is their completeness. This feature is revealed in detail in Chapter 1. Here the continuity of the adopted decisions with the principles advanced by V. I. Lenin in a report at the seventh party congress is shown, the essence of the economic mechanism and its structure are characterized. The authors emphasize that, being an objective category and a means of bringing the form of production in line with the steadily increasing level of the productive forces, the economic mechanism serves as the most important link of the practical implementation of economic policy.

At the same time the assumption advanced here, in conformity with which the economic mechanism can be regarded "as a broader concept than the management of the economy" (p 17), arouses doubt. The thesis that the forms of the organization of social production are an element of the economic mechanism, also seems very debatable to us. The forms of the public organization of production, as is known, are studied in the system of sectorial economic sciences, and it is hardly necessary to include them in the economic mechanism, which is called upon to create favorable conditions for implementing the effective specialization, concentration and cooperation of production. Therefore, having advanced such an assumption, the author should have attempted to advance more circumstantial arguments for it. On the whole an original interpretation of many theoretical assumptions on the economic mechanism is presented in the chapter.

Further, in Chapter 2 of the work, the use of economic laws in the system of the economic mechanism is examined. The essence of economic laws, their system and the peculiarities of their effect under the conditions of socialism are revealed in detail. The economic mechanism, the author notes, is based on the effect not of individual economic laws, but of their system, including the main economic law, the law of planned, proportionate development and others.

The political economic principles of the management of the socialist national economy are further developed in Chapter 3, in which the unity of the three aspects of management--the technological, the economic and the legal--is emphasized. In our opinion, it was also expedient here to distinguish the social aspect of management, having emphasized at the same time the primacy of the economic aspect. The peculiarities of commodity-money relations under socialism are characterized in detail, such categories as value and money under socialism and the directive indicators of the five-year plan, which are stipulated in the decree, are analyzed.

The first section concludes with a chapter on balanced development as the objective basis and universal form of the economic mechanism of mature socialism. The essence of balanced development here is defined as the direct social economic form of the production relations of producers (see p 51), as "the proletarian... and then the national regulation of the output and distribution of the national product" (p 52).

The raising of the question of enhancing the role of the consumer in formulating the programs of production development (the list and quantity of the output being produced, the period of assimilation of new items, prices and so forth) is timely. This by no means implies the transition to so-called market socialism, but is aimed at the improvement of planning, stimulation, pricing and other elements of the economic mechanism.

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The system of indicators of the plan is examined in Chapter 5 on a high theoretical level with allowance made for the most important practical tasks. The authors correctly emphasize that the standard net output is not the only characteristic of production efficiency. The indicator of product sales and several others have not yet become obsolete.

The need for the further development of the independence of associations in the formulation of the production program is argued in the book. The recommendations on establishing a different procedure of allocating assets for the expansion of capacities placed into operation, which are of local importance, and for the performance of those operations which substantially influence the territorial and sectorial proportions, are interesting.

The authors also propose to reduce the amount of centrally allocated materials and to expand wholesale trade in means of production, to take into account when establishing the standards of the determination of the wage fund the state of the equipment and processing method and the scale of production, to differentiate and increase the interest for credit, to take into account the valuation of land and other types of natural resources when determining the production cost.

At the same time some of the assumptions advanced here require additional argumentation, particularly the thesis about organizational administrative methods of management.

Chapter 6 is devoted to the economic levers of the management of the increase of product quality. Such management can be effectively implemented only in close connection with the entire system of the management of production development. However, the author did not reveal the forms and methods of this connection. The organizational measures placed by him in the forefront--the development of complete standardization, the precise determination of the level of quality, the creation of an extradepartmental commission of experts and others--can yield an impact only when they are combined with economic measures (wholesale price markups, the introduction of graduated prices, the differentiation of the conditions of credit extension subject to the achieved level of product quality, the special-purpose financing of measures aimed at increasing product quality and others).

A special place in the growth of production efficiency and the increase of its scale belongs to capital construction. In examining in Chapter 7 the tasks of the planning and stimulation of capital construction, the author singles out the main problems facing this sector at the present time: the decrease of the excessive amount of unfinished construction, the decrease of the scattering of capital investments among a large number of projects, the drive against the exceeding of the estimated cost of many projects, the placement into operation of fully completed projects and the increase of the quality of construction work. The assurance of the stability of the five-year plans, since a change of the assignments in the annual plans in the case of long construction periods leads to the disturbance of its entire course, and the balance of the plan assignments of construction organizations with their capacities and with the amount of allocated material resources should play a most important role in the solution of these problems.

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In the chapter much attention is directed to the new system of estimated indicators of the work of construction and installation organizations, to the change of the procedure of turning over and accepting completed projects, the system of the extension of credit to them and the procedure of paying bonuses to the designers and construction workers. But, unfortunately, the questions of improving the structure of construction organizations and the system of their management are not touched upon in the chapter.

The means of improving the organization of wages are examined in detail in the book. Among them are the rejection of the system of the rigid grouping according to wage rates and of the prevailing procedure of revising the norms, the establishment of a direct dependence between the increase of the national income and the wage, the decrease of the intersectorial differentiation of the wage. At the same time it is recommended to increase the differentiation in the wage subject to the qualitative features of labor. All this is very interesting, but is far from a real possibility, and in some cases also from being advisable for implementation.

As to some theoretical stands of the author, the "law of the recovery of expenditures of manpower," which he advanced (p 111), arouses doubt. The assumption, in conformity with which "along with considering economic laws when formulating the principles of the organization of the wage under the conditions of socialism it is also necessary to provide for measures on the assurance of the material interest of workers in the results of labor" (p 113), is also unsuccessfully formulated. Why does the author write "along" and "also" and thereby separate the material interest in the results of labor from the effect of the economic law of distribution according to labor, which is written about on the preceding page? The theses of the author about the measure of labor and the measure of its remuneration need, in our opinion, additional clarification.

He asserts later that "the large number of supplementary payments, increments and bonuses being used at this time have their own meaning" (p 118). It seems to us that this large number does harm, since it provides the opportunity to choose, by means of what results in work it is possible to obtain a larger wage without the proper relationship with the interests of the national economy. At the same time the characterization of the measures stipulated by the decree is given in an interesting way and quite completely.

The improvement of the use of manpower resources is one of the most acute problems at this time. But it is a matter not only of their limitation and the decrease of the influx of new manpower resources, but also of the many social consequences of the increase of labor efficiency. The author of Chapter 9 substantiates a number of interesting assumptions about the means of solving them. In particular, he recommends the use of indicators which characterize the use of manpower resources, the change of the system of seniority pay, the introduction of a fee for the use of manpower resources and others. However, in treating these measures the author confines himself to their cursory listing, without revealing the directions of the elaboration of if only the most significant of the recommendations made by him. At the same time he went beyond the analysis of the economic mechanism, also examining such questions as the reduction of the full-day and intrashift losses, the change of the system of the training and further training of personnel, the organization of the work of job placement bureaus and others. The substantiation by the author of "the law of the change of labor" (p 145) seems inadequate to us.

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The increase of production efficiency is closely connected with the efficient use of all types of production resources. At the same time there is an enormous production potential in the national economy of the country. An interesting, though short analysis of this potential and the specification of the means of its realization are given in Chapter 10. As whole these questions are stated correctly and in a well-reasoned manner. The still inadequate level of the specialization and concentration of production is the main factor which gave rise to this potential. The author shows convincingly the shortcomings in the solution of the problems of improving the organization of social production. The raising of the question concerning the fact that the concentration of production is justified only with its combination with a high level of specialization, is unquestionably correct.

At the same time the thesis about the tendency toward "the naturalization of production" is far from being that unequivocal. It seems to us, and this is confirmed by the experience of many developed countries, that the production of special means (equipment, tools, accessories, dies and so on) should be brought closer to the user with the strengthening of the unified technical management of such operations. And this tendency should hardly be interpreted as "the naturalization of production."

The aspiration of managers to organize the output of many semimanufactures "at their own works" is due to the still inadequate discipline of deliveries. The author names several measures which are aimed at the increase of discipline in the fulfillment of contracts, but it is impossible to limit oneself to this, a system of measures is needed here.

The improvement of the organization of production and management is an essential condition of the improvement of the economic mechanism and the assurance of its efficient operation. Chapters 11 and 12 of the monograph are devoted to this problem. The need to create an efficient technical information system, which conforms to the goals of the development of the object being managed, its peculiarities, the state and trends of development, is convincingly demonstrated in Chapter 11. The raising of the question concerning the development of an "information industry," the formation of general-purpose information and computer centers and the introduction of cost accounting relations between these centers and production economic organizations is of great interest. The recommendation of the author on "the integration of information flows on the scale of the national economy and its management organs" (p 185) is also correct.

In Chapter 12 on the basis of the analysis of the formation and activity of a number of production associations the need for a scientific approach to their creation is correctly demonstrated. The close production relations, which have presently formed not only within the sectors of industry, but also between them, dictate the expediency of the formation of multisectorial associations. According to the correct opinion of the author, it is necessary to reject the departmental approach to their creation and to proceed from production expediency, subordinating departmental affiliation to it.

The advanced proposal on the more precise division of operations among the management organs of the association as a whole and the production units belonging to it is correct. Unfortunately, the principles of implementing this proposal are not fully revealed in the chapter.



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The intensifying economic integration of the CEMA countries dictates the vital need for the convergence of the economic mechanism in the different countries. This does not rule out the existence of a number of its peculiarities, which are connected with the structure of production, the degree of development of international economic relations, the scale of production and other features of production in each of the countries. The author of Chapter 14 was able to ascertain and generalize the main traits of the economic mechanism which is functioning in the cooperating countries. The measures aimed at the development of the economic mechanism in the countries are described in the chapter. The new trends which are appearing in some of them are also distinguished.

Important questions are raised in Chapter 14, which is devoted to the development of the regions of the North. In it the problems which should be solved with a breakdown by territories are specified, the effectiveness of such an approach is shown. The economic efficiency of the development of the economy of Siberia at a faster pace than on the average for the country is convincingly demonstrated. The author proposes to organize the elaboration of programs for solving major regional problems. Unfortunately, the author does not reveal the questions which are directly connected with the improvement of the economic mechanism and of the combination of sectorial and regional interests, particularly with the creation of the conditions for stepping up the development of the economy of Siberia.

The analysis of the contents of the book makes it possible to conclude that the reader has received an interesting work, the study of which will help to extend his economic knowledge and will force him to ponder a number of complicated urgent problems of the further improvement of the economic mechanism of mature socialism.

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INVESTMENT, PRICES, BUDGET AND FINANCE

PRICE POLICY VERSUS PRODUCTION EFFICIENCY EXAMINED

Moscow VOPROSY EKONOMIKI in Russian No 2, Feb 81 pp 14-25

/Article by B. Plyshevskiy: "Production Efficiency and the Price"/

/Text/ The solution of the problems of increasing efficiency and quality, which have been raised by the present economic strategy of the party, is directing the attention of economic science toward the elaboration of a number of new theoretical problems of the political economy of socialism and the planned management of the national economy. One of them is the improvement of the methods of the planned management of the intensification of social production, particularly the strengthening of the influence of the price on the economy of expenditures and the increase of the efficiency of the national economy.

Many aspects of this problem have already been examined in the USSR and other socialist countries, but the analysis was based primarily on the materials of the preceding period, mainly with reference to the tasks of building socialism. The results of expanded reproduction during the next period, when the Soviet economy entered the stage of mature socialism and the previously formed tools of planning and economic stimulation were changed, have still not been properly generalized. Meanwhile this is most urgent in connection with the emergence of new processes and trends, which stem from the implementation during the coming 11th Five-Year Plan of the system of measures stipulated by the decree of the CPSU Central Committee and the USSR Council of Ministers, "On Improving Planning and Strengthening the Influence of the Economic Mechanism on Increasing Production Efficiency and Work Quality." In the article some general methodological questions of the theory of production efficiency and wholesale prices are analyzed, their interaction at the most important stages of the development of the Soviet economy and under present conditions is examined.

The Interrelationship of the Change of Efficiency and the Price

The price as a value expression of the socially necessary expenditures of labor is used for determining the amount of material and manpower resources consumed in the production processes and the amount of output produced and thereby is a measurer of the efficiency of management. The interrelationship of efficiency and the price is of two kinds. A change in production efficiency in the end is reflected in the level of prices. A lower price, other things being equal, attests to an increase of production efficiency. A decrease of efficiency usually leads to a

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subsequent increase of prices. But with a change in the conditions of reproduction the increase of efficiency is often accompanied by an increase of prices. The non-coincidence of their dynamics is caused by the fact that along with factors of efficiency many other factors, including the ratio of supply and demand and the change of the purchasing power of money also influence the price as a tool of the commodity economy. This concerns both the production of an individual commodity and the entire national product.

Marxist-Leninist political economy is based on the fact that the interrelationship of efficiency and the price is determined by the production relations prevailing in society and by the specific nature of the objective economic laws which operate on their basis. In bourgeois society this interrelationship is governed by the laws of the creation and private-capital appropriation of the surplus value and of capitalist competition. Under socialism the interaction of efficiency and the price reflects the planned development of social production in the interests of the most complete satisfaction of public needs.

While emphasizing the decisive influence of the specific economic laws of the historically dictated mode of production, Marxist-Leninist political economy at the same time takes into account the existence of some common laws of the change of efficiency and the price under capitalism and socialism. This is connected with two groups of reasons. First, there are common laws of reproduction, which are inherent in the different socio-economic formations. The laws of the proportionality between the material and value structures of the national product, the means of production and consumer goods, the consumption and accumulation funds in the national income in the case of simple and expanded reproduction, which were discovered by K. Marx and were developed by V. I. Lenin, first of all belong to them. The general economic laws, which arose on the basis of the development of large-scale mechanized industry (for example, the laws of the increase of labor productivity and the decrease of the cost of the output being produced), are also common.

Second, there is the use in economics of commodity-money relations. Since the effect of the laws named above is mediated by value relations, specific laws also arise in the interaction of production efficiency, the level, structure and correlations of prices.

Under capitalism of the period of free competition, an analysis of which is given in "Capital," the increase of labor productivity and the decrease of production costs were accompanied as a whole by the tendency for the level of prices to decrease. Having revealed the laws which were the basis for the cyclic development of capitalist production, K. Marx also showed the laws of the spontaneous movement of prices. "The market prices of commodities and the market rates of return follow these phases, first dropping lower than their average level, then rising above it. Looking at the entire cycle as a whole, you will note that one variation of the market price is offset by another and that on the average, within the entire cycle, the market prices of commodities are regulated by their values."<sup>1</sup>

In the late 19th century and during the following period in connection with the transition to monopoly capitalism the classical type of price change by phases of the economic cycle began to be modified: the rate of decline of prices slowed during periods of recession and depression, at the same time their increase quickened

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during a recovery and upswing. Thus, in the United States the wholesale price index, as a percentage of the base years of 1957-1959, for the years of their greatest decrease and increase was equal in 1890 to 30.7 percent, in 1896--25.4 percent, in 1901--30.2 percent, in 1907--35.7 percent, in 1920--84.5 percent, in 1932--35.6 percent, in 1937--47.2 percent, in 1941--47.8 percent, in 1948--87.9 percent and in 1953--92.7 percent.<sup>2</sup> From 1890 to 1915 the wholesale price index increased by approximately one-fourth, by 1920 it had increased 2.2-fold, during 1922-1940 it decreased to one-half.

After World War II at the second stage of the general crisis of capitalism, which coincided in time with the development of the present scientific and technical revolution, the increase of production efficiency began to be accompanied by an increase of the level of prices. The wholesale price index in the United States with respect to 1950 was in 1955 107 percent, in 1960--116 percent, in 1965--118 percent, in 1970--135 percent, in 1975--214 percent and in 1978--238 percent.<sup>3</sup> In the 1970's the inflationary processes in the capitalist world quickened, the increase of prices began to be measured annually in double digits and extended to all the phases of the cycle, including the period of recession and depression (the phenomenon of so-called stagflation). Since 1890 the wholesale prices have increased nearly eightfold, the postwar period accounts for about two-thirds of this increase, and the 1970's account for 60 percent.

The modification of the previously existing interrelationship of the increase of production efficiency and the change of prices is evident from the following data for the U.S. economy (the increases as a percentage on the average for the period):<sup>4</sup>

	1961-1965	1966-1970	1971-1975
Output of products (in man-hours)			
in the private sector of the economy. . . . .	3.9	2.0	1.6
in the processing industry. . . . .	4.5	1.2	1.9
Wholesale price index. . . . .	0.4	2.7	9.6
Price index of the gross national product. . . . .	1.6	4.2	6.9

The data of the table show a slowing of the growth rate of labor productivity with the increasing acceleration of the increase of prices. In recent years the previously achieved level of labor productivity in the U.S. processing industry has declined, while the increase of the wholesale price index on the average during 1976-1979 was 7.3 percent. An inverse relation of the change of production efficiency and the price at present is traced primarily in the sectors which determine the present directions of scientific and technical progress--electronics, nuclear power engineering, the production of computer hardware, new types of chemical raw materials and materials and others. However, the decrease of prices now extends, as a rule, to the output of individual sectors, the most efficient types of products are not being accompanied by a decrease of their overall level.

The classical scheme: the increase of labor productivity--the decrease of the cost and price of products, was developed by K. Marx as an extension of the labor theory of value of A. Smith and D. Ricardo as applied to the conditions of a balanced economy. It presumes, in particular, the existence of the proportionality

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of the physical and value structure of the national product and its realization through prices, the dynamics of which corresponds to the change of the cost of the reproduction of individual parts of this product. If these conditions are absent, an additional analysis of the factors which caused the imbalance of reproduction is necessary.

The work of K. Marx, "Wages, Price and Profit," in which the most important events of the struggle of the working class for an increase of wages or against their decrease are examined, is an example of such an analysis. Along with the increase and decrease of the cost of manpower the situation is examined, in which the cost of means of subsistence, labor productivity, supply and demand remain invariable, while the prices for commodities double as a result of a change of the value of money. Then 12 hours of labor, which previously took the form of 6 shillings, are now 12 shillings; if the wage of workers remains as before (3 shillings), it will be equal to only half of the money price of labor (this term is used here to designate the monetary expression of the cost of manpower).

"Nothing changes except the monetary */names/* *[in italics]* of these costs," K. Marx notes in this regard. "To say that in such a case the worker should not seek the corresponding increase of wages means saying that the worker should be content with the fact that he is paid with names instead of things."<sup>5</sup> This will also occur to one extent or another with a smaller increase of wages as compared with the depreciation of money.

In the cited example the increase of prices is explained by the decrease of the price of gold as a result of the discovery of richer mines. This is only one of the possible causes of a change of the value of money. This example is also important methodologically for the study of other instances of the change of prices under the influence of the change of the value (purchasing power) of money, which depends on the factors of the dynamics of the cost of production and production efficiency. The approach developed by K. Marx is also applicable to the paper money issued by the central banks of capitalist countries in excess of the normal needs of the economic turnover to cover the deficits of the state budget and the balance of payments.

Consequently, the depreciation of money can occur not only with a constant cost of goods, but also with its decrease as a result of the increase of labor productivity. The different direction of the dynamics of prices, the cost of production and production efficiency is used by the capitalist states as an additional means of increasing revenues, boosting profits by means of limiting the wages and consumption of workers and redistributing the national income through the price mechanism in the interests of the bourgeoisie. The inflationary international monetary policy of the monopolies and the capitalist states representing their interests, which is aimed at changing by price methods the proportions of the distribution of the national income for the necessary and surplus product and consumption and accumulation funds, in the end is the main cause of the expression of the increasing production efficiency in a higher level of prices.

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The Peculiarities of the Increase of Production Efficiency and the Change of Prices in the USSR National Economy

The experience of building socialism in our country has shown the optional nature of the combination of the growth of production efficiency and the increase of prices, which is characteristic of the present capitalist economy. Over a number of years (during the restoration of the national economy following the civil war, in the mid-1930's, after the fulfillment of the main tasks of socialist industrialization, in 1947-1956) the increase of the efficiency of socialist production was combined with a decrease of the overall level of prices. Until the revision of the wholesale prices for industrial products in 1967 their level remained stable. Since the mid-1950's the overall retail price index for consumer goods has practically not changed. Similar trends occurred in the national economy of the European socialist CEMA member countries during the first half of their postwar development.

The planned organization of the socialist economy meant the creation of a new mechanism of the interrelationship of a high rate of scientific and technical progress, the decrease of the socially necessary expenditures of labor and the change of prices, the most important trait of which is their steadiness and stability. The wholesale prices for industrial products, transportation rates and the estimate prices in construction during the postwar years were changed on the average every 10-12 years. During these intervals the prices for the products of individual sectors and for those types of products, for which especially significant changes of the cost, supply and demand occurred, were revised in part.

At all the stages of the building of socialism pricing was actively used as an important lever of the implementation of the economic policy of the party; the problems of increasing the efficiency of socialist production were solved by means of the price mechanism. The system of prices performs here two main functions: the measurement of efficiency and the economic influence of its increase (stimulation).

Two types of prices--current and comparable--are used in economic calculations. First of all the indicators of efficiency, which reflect the cost accounting and financial results of production--the cost, the profit and the profitability--are expressed in current prices. The calculations of the indicators of efficiency in these prices are intended for the analysis of the current results of production and the determination of the comparative efficiency of the activity of the enterprises in the sector (ministry). The possibility of using such prices for comparisons of the dynamics of efficiency is more limited, since during the five-year planning period with a stability of the overall level of prices the structure of the output produced by enterprises and of the means of production consumed by them (their updating takes place), the prices of individual items and so on changes. Therefore in planning and statistical reporting the changes of labor productivity, the output of products per ruble of fixed production capital (the output-capital ratio), the materials-output ratio and the indicators of the effectiveness of capital investments are determined on the basis of comparable prices.<sup>6</sup> Since the Eighth Five-Year Plan the profit and the profitability have also been calculated in comparable prices.

Starting in the mid-1960's different correlations of the increase of production efficiency and the change of prices as compared with the preceding period of postwar

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development began to form in the Soviet economy, which is evident from the following data (in percent).<sup>7</sup>

	1951- 1965	1966- 1979
<b>National Economy</b>		
Average annual increases of:		
productivity of national labor. . . . .	7.9	5.0
net income of society . . . . .	4.7	6.8
Change during the period of:		
output-capital ratio. . . . .	-9.5	-23.8
price index of gross national product . . . . .		6.4
<b>Industry</b>		
Average annual increases of:		
labor productivity. . . . .	6.5	5.1
profit. . . . .	7.4	8.5
Change during the period of:		
output-capital ratio. . . . .	-6.5	-16.0
index of wholesale prices of enterprises. . . . .	-16.0	3.0

The average annual growth rate of the productivity of national labor during 1966-1979 decreased by more than one-third, while in industry it decreased by one-fifth. The accelerated decrease of the output-capital ratio (by a factor of 2.7 for the national economy and 2.6 in industry) also attests to the slowing of the increase of the efficiency of social production. During 1966-1979 the materials-output ratio of the national product increased slightly, while prior to this the growth of the national income outdistanced the increase of the gross national product. At the same time there was an acceleration of the increase of the net income and the profit, which are measured on the basis of the current prices of the corresponding years. In industry the average annual growth rate of the profit in 1966-1979 was 1.24-fold greater than in 1951-1965. Since the increase of efficiency slowed, this acceleration first of all is connected with the changeover of industry and construction during the Eighth Five-Year Plan to the new conditions of planning and economic stimulation and with the establishment of higher wholesale and estimate prices.

The increase of the profit began to depend to a lesser extent on the reduction of expenditures in the production process and to reflect more the increase of volumes of output and the higher level of profitability, which was incorporated in the new prices (15 percent of the value of the fixed production capital and the standard of internal working capital as compared with the actual profitability of 13.6 percent in 1960 and 13.0 percent in 1965). This conclusion is also confirmed by the slowing of the decrease of expenditures per ruble of industrial commodity production<sup>8</sup> (see the table on the following page).

In construction the cost of construction and installation work during 1966-1979 decreased by only 2.4 percent as compared with 21.3 percent during 1951-1965; in agriculture the cost of the main types of products increased.

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	1965 as a percentage of 1960	1970 as a percentage of 1965	1975 as a percentage of 1970	1979 as a percentage of 1975
Expenditures per rubles of industrial commodity production				
in current prices, . . . . .	-1.0	-5.5	+2.8	+1.6
in prices comparable with the preceding period . . . . .	-4.8	-4.9	-3.1	-0.2

Along with the slowed increase of production efficiency the increase of the overall level of wholesale prices during the period in question reflects the change of social needs for individual types of industrial products, the amounts and conditions of their production, as well as the disproportions in the development of some sectors. The increase of wholesale prices applied primarily to means of production (the output of the fuel and raw materials sectors of industry, agricultural raw materials, capital newly put into operation); the overall retail price index for consumer goods, which is calculated by the USSR Central Statistical Administration, practically did not change. The increase of prices during the period of industrialization (the First and Second Five-Year Plans), on the contrary, resulted to the greatest extent from the increase of retail prices for consumer goods, while wholesale prices changed to a relatively smaller extent (with the stability of the procurement and purchase prices for agricultural products). Another distinction of the process of the increase of the wholesale prices for industrial engineering products, which took place during the last three five-year plans, consists in the fact that it occurred under the conditions of the slower growth of the efficiency of social production.

All this attests to the weakening of the link of the dynamics of wholesale prices and the efficiency of the economy. The correlation of the measuring and stimulating function of wholesale prices changed in favor of the latter. This is confirmed, in particular, by the structure of wholesale prices: the proportion of the profit in the prices for the products of the sectors of heavy industry was 9.9 percent in 1959 and 11.6 percent in 1965, while with the establishment in 1967 of new wholesale prices this proportion increased in 1970 to 18.1 percent and in 1978 was equal to 14.6 percent. The proportion of the profit in the wholesale prices of all industry increased from 7.4 percent in 1958 to 14.2 percent in 1970 and in 1978 was 11.8 percent.<sup>9</sup>

With the implementation of the latest wholesale price reform along with the production cost the amount of the considerably increased economic stimulation funds (the production development fund, the material incentive fund of workers and the fund for sociocultural construction), which are formed on a cost accounting basis, was taken as one of the criteria of the determination of the profitability and the level of prices. These funds were intended for increasing the interest of the collectives of enterprises and individual workers in the improvement of the quality indicators of work. However, the practice of forming the stimulation funds primarily subject to the increase of the volume of product sales and the profit led to their increase at a leading rate as compared with the increase of production efficiency. The enhancement of the stimulating role of prices was inadequately linked with the increase of the interest of enterprises in increasing efficiency by reducing the production outlays.



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Pricing policy influences the mobilization of reserves of the increase of efficiency in combination with the other tools of its planned increase--the planning of scientific and technical progress, the sectorial pattern of production and the distribution of productive forces, the correlations between the increase of labor productivity and the wage and the output of consumer goods. At the same time the increase of efficiency depends on the peculiarities of the economic levers and stimuli, which are used at different times. Cost accounting in the form which it assumed during the years of the prewar five-year plans and at the beginning of the postwar period, in the mid-1960's ceased to conform to the new tasks of developing the Soviet economy. The implementation of the decisions of the March and September (1965) CPSU Central Committee Plena, which specified the current agrarian policy of the party and the changeover of industry and construction to the new conditions of planning and economic stimulation, ensured during the Eighth Five-Year Plan the acceleration of the growth rate of the national income as compared with the preceding period by 1.2-fold and of the per capita real income by 1.9-fold. This was achieved on the basis of the more rapid increase of the efficiency of social production.

The main cause of the slowing of the growth rate of efficiency in recent years, as was noted at the November (1979) CPSU Central Committee Plenum, consists in the failure to fulfill the plan assignments on the indicators of efficiency and in the fact that the ministries and departments were able far from everywhere to overcome the force of inertia and to resolutely reorganize the work for the purpose of increasing the quality and productivity of labor and achieving better end results.

An important role in solving these problems belongs to the assurance of the optimum interaction of the increase of production efficiency and the change of prices. During the coming 11th Five-Year Plan the next revision of wholesale prices and rates in industry will be carried out. The main principles and directions of this revision have been conveyed in adequate detail in economic literature.<sup>10</sup> Let us examine several theoretical aspects of the problem of the interrelationship of efficiency and prices, which have a bearing on the implementation during the new five-year plan of the outlined measures on the improvement of the economic mechanism.

#### The Strengthening of the Influence of the Economic Mechanism on the Intensification of Production

The experience of building socialism in the Soviet Union and other countries shows that the methods of increasing production efficiency, which are notable for the degree of centralization of management and the independence of the cost accounting units, the composition of the indicators being planned and the approach to wholesale pricing policy, are used in the mechanism of planning and economic management which is employed by them. In particular, since the mid-1960's in one group of socialist countries (the USSR, the GDR) the problems of increasing efficiency and quality have been solved within the framework of a stable level of wholesale prices or with their negligible increase, while in another group (Hungary, Yugoslavia, Poland) the considerably greater flexibility and increase of prices have been allowed for the same purposes.<sup>11</sup>

Consequently, it is possible to speak of the existence of two basic approaches to wholesale pricing policy as a tool of economic influence on production efficiency--the assurance of their stability and the aim at their continuing increase. Before

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judging the preferableness of one approach or the other, it is necessary to ascertain the causes and motives of the increase of wholesale and retail prices, which is occurring in a number of socialist countries. As a rule, this occurs in countries with limited fuel, energy and raw material resources, a comparatively small population and domestic market, which have stable trade, scientific and technical relations with industrially developed capitalist states.

With respect to all these attributes the Soviet economy is under more favorable conditions. The Soviet Union has adequate sources of energy and reserves of practically all mineral resources. The scale of the domestic market makes it possible to establish specialized sectors and large enterprises, which are inefficient for small countries. The proportion of foreign trade in the USSR national economy, in spite of the tendency for it to increase, henceforth will apparently remain smaller than in other socialist and the industrially developed capitalist countries.

The indicated factors are responsible for the dominant influence on the level of wholesale prices of the conditions of reproduction within the country and the limited effect on them of the world capitalist market. Therefore in the USSR there are far more opportunities than in any other socialist country to pursue a policy of stable wholesale prices and to ensure the mobility and flexibility of prices, which is necessary for the stimulation of technical progress and the increase of production efficiency, without increasing their overall level.

In many respects it is more difficult to develop production and organize the fulfillment of plans under the conditions of a stable level of wholesale prices (all the more so with their decrease) than with an increase of prices, even though it occurs not constantly, but periodically. Any failure to fulfill the plan assignment on the volumes of output and production efficiency (labor productivity, production costs and other qualitative indicators) leads under these conditions to the decrease of the profit and other accumulations, which are necessary for financing the outlined measures on the development of the sectors of the national economy and the increase of the well-being of the people. The additional redistribution of the national income by price methods between consumption and accumulation and of the accumulation fund itself between individual sectors and economic regions, which was not stipulated by the previously approved five-year plans, is eliminated or reduced to a minimum here.

Such an economic mechanism, by ensuring the stability and increase of the purchasing power of money, guarantees a realistic level of accumulations of socialist enterprises and income of the state and the population and creates the conditions for increasing the effectiveness of the entire system of economic levers and stimuli. An important advantage of the policy of stable and decreasing wholesale prices consists in the fact that it directs the economic operations of enterprises to a greater extent toward the implementation of a policy of economy by reducing the expenditures in the production process. Owing to this the change of the profit expresses more accurately the achievements of cost accounting enterprises in increasing the efficiency of their work. It is not by chance, apparently, that the highest growth rate of labor productivity and the decrease of the production cost was achieved during the years when a decrease of the level of wholesale prices occurred and particular attention was directed to the assurance of their stability, the observance of state price discipline and the prohibition of their inflation for newly assimilated and updated types of products.

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The next revision of wholesale prices during the 11th Five-Year Plan, as in 1967, will lead to a slight increase of their level primarily due to the increase of the prices for the products of the fuel and raw material sectors of industry. The ratios of prices and the profitability in the processing sectors and for individual types of products will also be improved with allowance made for the conditions of reproduction, which have changed during the past decade and a half. The new wholesale prices are being formed on the basis of a profitability of the sectors within the range of 12-15 percent. As a whole the standard of profitability, which was previously adopted in pricing, under comparable conditions is not decreasing, since the expenditures on geological exploration and the contributions for the social security of workers and employees, which have been increased by approximately 1.5-fold and nearly 40 percent of which were previously financed by assets of the state budget, are being included in full in the production cost (for extractive sectors). When introducing the new prices it is intended not to allow an increase of the retail prices for consumer goods and an increase of the cost of the industrial engineering products being supplied to agriculture.

The approximation by wholesale prices of the value expression of the socially necessary expenditures of labor on the basis of the present conditions of reproduction is increasing their influence on the mobilization of reserves of the increase of efficiency in several directions. Prices are becoming a more precise tool of economic calculations, the measurement of the expenditures and results and the calculation of the national economic and cost accounting efficiency in all the links of the national economy. At the same time the stimulating function of wholesale prices is being broadened by the establishment of more significant markups for highly efficient industrial engineering products (from 0.5 to 1.25 percent of the standard of profitability, which is used when determining the price, and up to 70 percent of the annual economic impact from the output and use of these products), the lengthening of the term of effect of the markups in case of the awarding of the State Seal of Quality (up to four years, and for products of particular complexity up to five years) and the use of discounts in the amount of half of the profit from the sale of products of the second quality category and products not certified on time.

The practice of planning and pricing and the results of repeated revisions of wholesale prices again raise the question of the level and structure of prices, which correspond to the greatest extent to the tasks of efficient management and the strengthening of cost accounting and economic stimuli. A number of authors link this with the increase of wholesale prices, especially for scarce and more economical types of products (for example, highly productive equipment, petroleum, gas). It is considered that with such an increase prices will reflect more accurately the socially necessary expenditures of labor.

Turning to the history of planned pricing, it is possible to see that this argument was cited when substantiating all changes of prices, be it their decrease or increase. The very concept of socially necessary expenditures is used in a double sense--as a natural measure of the expenditures of abstract labor in the time worked and as their monetary expression. On the one hand, owing to the increase of labor productivity these expenditures, as a result, are decreasing, and their approximation of the cost can occur, obviously, only with a decrease of prices. On the other, the socially necessary expenditures are understood as the value expression of the elements of the production cost (the materials expenditures, amortization,

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wages), the net income and profit, which correspond to the specific conditions and proportions of reproduction. In this sense the socially necessary expenditures of labor for different types of products have dynamics with different directions: they decrease in the sectors in which the rate of technical progress and the increase of labor productivity is higher; they remain unchanged or increase in those sectors in which these processes take place less intensively or the changeover to the working of relatively worse land or mineral deposits, which is reflected by the law of differential rent, is proceeding.

The principles forming the basis for the new revision of wholesale prices do not confirm, in our opinion, the arguments about the stimulation of the increase of production efficiency by higher prices. The objectively existing sectorial differences in the dynamics of the production costs and the profitability are taken into account in the new wholesale prices. The increase of prices in the group of extractive and raw materials sectors is being combined, as was the case in the past, with the pursuit of the policy of reducing them in the processing sectors. The well-known theses that the efficiency of new equipment in the end is manifested in the relative decrease of the price as compared with the equipment previously produced and per unit of capacity, while the decrease of the cost of most efficient means of production broadens the range of their profitable use, remain in force.

The expediency of the increase of the price as a lever of the more efficient use of resources at the present stage of the development of the Soviet economy, in our opinion, should not be overestimated. Under the conditions of the centralized distribution of physical assets and equipment (funding) the new prices are taken into account in the estimates of expenditures and the financial plans of both suppliers and consumers, owing to which to a certain extent it is all the same to the latter, what price they pay for the resources allocated to them according to the plan. The consumer could derive a real cost accounting advantage if it were possible to replace, for example, expensive fuel oil or gas with cheaper coal or an expensive machine tool, which is difficult to operate, with a simpler and more reliable one.

The economic influence of the increase of prices on the increase of the production volume, the decrease of production costs and the improvement of the quality of items is especially appreciable when eliminating the unprofitability due to reasons which are not connected with the enterprises' own activity. But in this case as well the stimulating influence of prices, as experience shows, is quite short-lived. If a decrease of the level of expenditures then does not occur, but, on the contrary, their increase occurs and the profitability decreases, the regulating functions of prices weaken again and the need for their next increase arises.

In the case of centralized planning the standards of expenditures, on the basis of which the balances and plans of the distribution of industrial engineering products are drawn up, act as a means of economic influence on the efficient use of material resources, which is no less effective than the price. Precisely for this reason in the decrees on the improvement of the economic mechanism much attention is devoted to the standard base of planning--the development of a system of advanced technical and economic norms and standards by types of operations and expenditures (saving) of labor, raw materials, materials and fuel and energy resources, standards of the use of production capacities and the specific capital investments, as well as to the drawing up of passports of enterprises.

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A peculiarity of the measures now being implemented to improve the economic mechanism consists in the establishment of a closer relationship of all economic levers and stimuli with the increase of efficiency by the economy of expenditures in the production process and with the improvement of the end results of the economic operations of production collectives.

First of all it is necessary to note the strengthening of the connection of the stimulation of the increase of product efficiency with the assignments of the five-year plans, which it is planned to make stable by years of the five-year plan. The long-range standards of wages, the distribution of the profit and the formation of economic stimulation funds are included in the system of plan indicators which are approved by directive for ministries, associations and enterprises.

Limits of the number of workers and capital investments as the maximum amounts of resources allocated to them are being included in the plan indicators on labor and capital construction which are reported to the production collectives. The use of limits aims enterprises at the achievement of higher end results of production, since these indicators will not be used for evaluating the results of economic operations. At the same time the list of centrally planned assignments on the economy of expenditures and production efficiency is being enlarged. Assignments on the decrease of the use of manual labor, the average decrease of the rates of consumption of the most important types of material resources, the economic impact from the implementation of scientific and technical measures and the output of products of the highest quality category are included in this list. In some sectors of industry, primarily the processing and raw materials sectors, among the financial indicators instead of the profit it is envisaged to set assignments on the reduction of the production cost. The planning of labor productivity in industry and construction is being reorganized on the basis of its measurement according to the standard net output or another indicator which reflects more accurately the changes of the labor expenditures in individual sectors.

A characteristic feature of the reorganization being carried out in the methods of economic stimulation consists in the establishment of a closer relationship between the amount of the incentive of production collectives and individual workers and the economy of expenditures in the production process. Thus, the material incentive fund at associations and industrial enterprises will be formed not according to the criterion of the increase of the sale of products and the profit, but subject to the increase of labor productivity, the increase of output of the highest quality category and the fulfillment of the plan of deliveries of products to consumers in conformity with concluded contracts. The rights of ministries to use, with allowance made for the peculiarities of the sectors, among the fund-forming indicators other qualitative indicators: the saving of material resources, the increase of the output-capital ratio and the shift coefficient, the reduction of the production cost, and in the extractive sectors the increase of the output of products in physical terms, have been broadened. The economic stimulation of construction and installation organizations, as well as the evaluation of their economic operations will be carried out in accordance with the results of the fulfillment of the assignments on the placement of production capacities and facilities into operation, the commodity production of construction and the increase of labor productivity and the profit.

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The tasks of promoting the policy of economy and strengthening cost accounting are set in the draft plan of the CPSU Central Committee for the 26th party congress, "The Main Directions of USSR Economic and Social Development for 1981-1985 and the Period to 1990." For this it is envisaged to implement at all levels of management a set of measures which are aimed at the more complete utilization of all types of resources--labor, energy, raw materials and materials, equipment and production capacities, at the reduction of various losses and waste and the elimination of nonproductive expenditures.

The consistent implementation of the set of outlined measures on the improvement of the economic mechanism is called upon to promote the more complete utilization of the reserves of the increase of the efficiency of socialist production and the shortening of the period of the planned transition of the Soviet economy to the intensive path of development.

## FOOTNOTES

1. K. Marx and F. Engels, "Soch." /Works/, Vol 16, p 148.
2. "Historical Statistics of the United States, Colonial Times to 1957," 1958, pp 106, 107.
3. "Statistical Abstract of the United States," 1977, pp 405, 472.
4. "Statistical Abstract of the United States," 1979, pp 413, 476.
5. K. Marx and F. Engels, "Soch.," Vol 16, p 145.
6. In industry the prices of 1975 are presently used as the comparable prices, in construction--the estimate prices of 1969, in agriculture--the prices of 1973, the prices of 1973 are used for the calculations of the national income (see "Narodnoye khozyaystvo SSSR v 1978 godu" /The USSR National Economy in 1978/, Izdatel'stvo "Statistika", 1979, pp 333, 574, 579, 585). It is more difficult to achieve the comparability of the valuation of the fixed capital, since new enterprises and facilities, which, as a rule, differ with respect to their technical and design parameters, are put into operation with a mixed valuation on the basis of the actual expenditures, which are expressed in the prices of different years. The price factor is, apparently, an important case of the decrease of the output-capital ratio, which accelerated during the 1970's (see V. Fal'tsman, "The Capacity Equivalent of Fixed Capital," VOPROSY EKONOMIKI, No 8, 1980; V. Tikhonov, "The Essence of the Agro-Industrial Complex," VOPROSY EKONOMIKI, No 8, 1980).
7. See "Narodnoye khozyaystvo SSSR za 60 let" /The USSR National Economy After 60 Years/, Izdatel'stvo "Statistika", 1978, pp 350, 635; "Narodnoye khozyaystvo SSSR v 1970 godu" /The USSR National Economy in 1970/, Izdatel'stvo "Statistika", 1971, pp 383, 703; "Narodnoye khozyaystvo SSSR v 1979 godu" /The USSR National Economy in 1979/, pp 45, 54, 55, 285, 535. For the national economy labor productivity and the output-capital ratio are calculated with respect to the national income, in industry--with respect to the gross output; the accumulations

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of the state sector (the profit, the turnover tax and others) and the net income of kolkhozes are included in the net income. For 1951-1965 the data pertain to the accumulations of the state sector--the sum of the profit and the turnover tax; during 1966-1979 their average annual increase was 7.3 percent.

8. See "Narodnoye khozyaystvo SSSR v 1965 godu" /The USSR National Economy in 1965/, Izdatel'stvo "Statistika", 1966, p 164; "Narodnoye khozyaystvo SSSR v 1970 godu," Izdatel'stvo "Statistika", 1971, p 173; "Narodnoye khozyaystvo SSSR v 1975 godu," Izdatel'stvo "Statistika", 1976, p 229; "Narodnoye khozyaystvo SSSR v 1979 godu," p 162.
9. See "Narodnoye khozyaystvo SSSR v 1970 godu," p 178; "Narodnoye khozyaystvo SSSR v 1965 godu," p 168; "Narodnoye khozyaystvo SSSR v 1978 godu," p 141.
10. See N. Glushkov, "The Economic Mechanism and the Practice of Planned Pricing" (KOMMUNIST, No 8, 1980); N. Glushkov, "On the Further Improvement of Planned Pricing and Its Influence on the Increase of Production Efficiency and Work Quality" (PLANOVOYE KHOZYAYSTVO, No 6, 1980); Yu. Yakovets, "Prices and the Improvement of Planning and the Economic Mechanism" (VOPROSY EKONOMIKI, No 6, 1980); A. Komin, "The Problem of Improving Wholesale Prices and Rates in Industry" (PLANOVOYE KHOZYAYSTVO, No 5, 1980).
11. See "Sovremennyy etap sovershenstvovaniya planovogo upravleniya ekonomikoy" /The Present Stage of the Improvement of the Planned Management of the Economy/, Izdatel'stvo "Mysl'", 1978; "Khozyaystvennyye mekhanizmy SSSR i ryada drugikh stran sotsializma (informatsionno-analiticheskiy obzor)" /The Economic Mechanisms of the USSR and a Number of Other Socialist Countries (A Data Analysis Survey)/, Institute of Economics of the World Socialist System of the USSR Academy of Sciences, 1979; "Opyt sovershenstvovaniya upravleniya ekonomikoy v zarubezhnykh stran SEV (1976-1980 gg.)" /The Experience of Improving the Management of the Economy in Foreign CEMA Countries (1976-1980)/, materials of a scientific conference, Institute of Economics of the World Socialist System, 1980.

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INVESTMENT, PRICES, BUDGET AND FINANCE

EXPERTS REVIEW NEW CAPITAL INVESTMENT METHODOLOGY

Moscow VOPROSY EKONOMIKI in Russian No 2, Feb 81 pp 154-157

/Article by G. Merkina: "On the New Edition of the Standard Procedure of Determining the Economic Effectiveness of Capital Investments"

/Text/ The decree of the CPSU Central Committee and the USSR Council of Ministers of 12 July 1979 calls for the improvement of planning estimates on the basis of a system of indicators, which is intended for all levels of management. This gave rise to the need to bring all procedural documents and other enforceable enactments in effect in line with the provisions of the decree. In this connection the Scientific Council for the Economic Effectiveness of Fixed Capital, Capital Investments and New Technology of the USSR Academy of Sciences drew up a draft of the third edition of the Standard Procedure of Determining the Economic Effectiveness of Capital Investments.

The draft, which was drawn up by Academician T. Khachaturov, Doctor of Economic Sciences V. Krasovskiy and Candidate of Technical Sciences M. Loyter under the general direction of T. Khachaturov, is based on the provisions of the indicated decree, develops the prevailing Standard Procedure of 1969 and includes the results of the procedural elaborations carried out by the Scientific Council in recent years.

The third edition differs from the Standard Procedure of 1969 by more detailed recommendations on the estimates of the overall (absolute) effectiveness in planning. The criterion: the increase of the national income--the increase of the net output (including the standard net output), which is uniform for all levels of management (the national economy, the sector, the production association, the enterprise), is the basis for the estimates of the overall (absolute) effectiveness.

The very amount of capital investments is specified considerably more completely. Along with the capital investments in fixed production capital the expenditures on the formation (replenishment, reduction) of working capital and the nonproduction expenditures connected with the development of production and the attraction of manpower (on housing, municipal and general construction and others) are taken into account.

The recommendations on the use of the standards of the overall (absolute) effectiveness are elaborated in greater detail. The standards themselves, which it is envisaged to differentiate by planning periods (5 years and 10-20 years) and with



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respect to the levels of management of the national economy (the national economy as a whole, individual sectors, subsectors) are also sounder.

The standards of effectiveness for the five-year plan as the main form of planning are of particular importance. For the 11th Five-Year Plan the standard of the overall (absolute) effectiveness for the national economy as a whole is set at the level achieved during the 10th Five-Year Plan, that is,  $E_a$  is 0.14, and by sectors of the national economy at 0.05 to 0.25.

The recommendations on the use in the analysis of the factors which influence the overall effectiveness of capital investments: the change of the labor-output, materials-output and capital-output ratios, the shortening of the term of construction and the reduction of its estimated cost, are new in the third edition of the Standard Procedure.

The recommendations on the consideration of the time factor when determining the overall (absolute) effectiveness are presented more completely. In addition to the calculation of the lag, it is recommended to make an estimate of the losses from the freezing of capital investments during above-standard periods of construction (and assimilation), for which the appropriate design formulas are cited.

The elaboration of recommendations on the calculations of the comparative effectiveness of capital investments, which is based on the criterion of the minimum adjusted expenditures, was required to a lesser extent. Very significant features are distinguished in the new edition of the Standard Procedure. First, the limitation of the sectorial deviations from the standard coefficient of comparative effectiveness, which is being maintained for the 11th Five-Year Plan at the level of 0.12, is called for. If deviations are necessary, the standard should be not less than 0.08-0.10 and not greater than 0.20-0.25. Second, recommendations on the calculations of the effectiveness not only for producers, but also for users are cited in the new edition. The determination of the aggregate impact, which is also compared with the cumulative costs, is recommended.

The third edition of the Standard Procedure contains new sections which make it possible to take into account the peculiarities of the calculation of the effectiveness of capital investments in the expansion, renovation and retooling of operating enterprises, scientific research and design operations, the nonproduction sphere and the sphere of circulation and in environmental protection.

The studies conducted in recent years by the Scientific Council and its Ural branch<sup>1</sup> are the basis for the section on the determination of the economic effectiveness of capital investments in the expansion, renovation and retooling of operation enterprises. It is recommended to compare without fail the effectiveness of new construction with the effectiveness of the renovation and retooling of operating enterprises. In these comparisons it is necessary to take into account the entire amount of capital investments--the production and nonproduction investments, as well as the expenditures (or saving), which is connected with the additional attraction of

1. See the draft of the Procedural Recommendations on Determining the Economic Effectiveness of Capital Investments in the Operating Works (Sverdlovsk, 1980).

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manpower resources. There are also recommendations on the consideration of the social consequences of renovation--the improvement and facilitation of working conditions.

The section on the determination of the effectiveness of capital investments in the nonproductive sphere, which is included in the Standard Procedure, is based on the Procedure of Determining the Effectiveness of Expenditures in the Nonproductive Sphere (Moscow, 1979), which was previously elaborated by the Scientific Council. The section contains general recommendations on the calculations of the socio-economic effectiveness by comparing the obtained social and socio-economic results (impacts) with the expenditures necessary for their implementation. A set of indicators, which reflect the impact of capital investments in the material base of the nonproductive sphere, its individual sectors and objects, is cited. Recommendations are given on the calculations of the comparative effectiveness and the selection of the best variants on the basis of the maximum achieved social results, and in the case of the identity of the social results in different variants, on the basis of the minimum adjusted expenditures.

A new section on the determination of the economic effectiveness of capital investments in the sphere of circulation (trade, public dining, material and technical supply, procurement) is introduced in the third edition of the Standard Procedure. The amount of the impact is defined as the sum of the trade discounts (markups) less the payment for the services of other sectors of the national economy and the material expenditures, which are included in the marketing costs. It is also recommended to take into account the costs of consumption, of which the expenditures of time of the population on purchasing goods are a part, and such additional indicators as the breadth of the assortment of goods, the appearance of goods and the preservation of the quality of goods, the provision of conveniences to customers, the observances of the requirements of the labor safety and labor hygiene of trade workers and others.

In recent years the Scientific Council has devoted much attention to the elaboration of procedural questions of the effectiveness of environmental capital investments. The results of the research were reflected in the Temporary Procedure of Determining the Effectiveness of Expenditures on Environmental Protection Measures (1980), which was prepared by the Scientific Council and was approved by USSR Gosplan. The corresponding section has been included in the third edition of the Standard Procedure. In it recommendations on the calculations of the social and economic impact are cited, recommendations are given on the use of the approved economic appraisals of land, water, timber and mineral resources, as well as on the use in the calculations, which such appraisals are lacking, of the indicators of the net output, the profit or the decrease of the production cost.

In the section on the determination of the economic effectiveness of scientific research and design operations there are given: a classification of these operations according to the degree of their ability to increase the efficiency of social production; recommendations on the selection of the base (standard) for the comparison of scientific results with the existing and planned achievements of science and technology; methods of measuring the economic potential which is created by the introduction of scientific results in economic practice; recommendations on the consideration of the reproduction expenditures, which are connected with the

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preparation for the introduction of scientific results and are not included in the production cost of products. The consideration of the social results, which are not fully reflected in the value estimate: the elimination of difficult physical labor, the increase of the level of labor safety techniques, the elimination of industrial accidents and occupational diseases and so on, is also called for.

Methods of determining the actual effectiveness of capital investments are presented in a special section of the Standard Procedure. Recommendations on the calculations of the absolute and comparative actual effectiveness of the capital investments which are being allocated for new construction, the renovation and retooling of the operating works, are given here. The increase of the net output (the profit) and the effectiveness ratio (the profitability) are used as the indicators.

The draft of the Standard Procedure was repeatedly discussed in the bureau of the Scientific Council and then was submitted to the plenary meeting of the council, which was held on 28 May 1980 and in which specialists of scientific research and design organizations, ministries and departments participated. Those who took part in the discussion unanimously approved of the draft submitted for discussion and stated that it is a significant contribution both to the general theory of efficiency and to the matter of adopting in planning and design practice uniform, scientifically sound methods of calculating the effectiveness of capital investments. A number of remarks and requests were made during the discussion.

Doctor of Economic Sciences V. Vorotilov (Institute of Socio-Economic Problems of the USSR Academy of Sciences) directed attention to the lack in the draft of a special section on the determination of the regional effectiveness of capital investments and in this connection to the inadequacy of the recommendations on the consideration of related expenses only with respect to the sectorial attribute.

V. Tolpygin (USSR Gosplan), having emphasized the importance of the specific values of the standards of the overall (absolute) effectiveness, which are presented in the document, noted the need for the strict monitoring by planning and financial organs of the correct use of the Standard Procedure in economic substantiations of capital investments.

Candidate of Economic Sciences M. Spektor (Institute of Economics of the Ural Scientific Center of the USSR Academy of Sciences) expressed the wish that in calculations of the efficiency of operations on renovation not only the saving of the wage fund would be taking into account, but the released labor would be appraised with respect to the public consumption funds. There were also remarks on the methods of calculating the actual effectiveness of capital investments, as well as wishes with respect to the use of the experience gained when analyzing the actual efficiency of the enterprises of the Urals.

Candidate of Economic Sciences I. Perepechin (USSR Central Statistical Administration) spoke about the use of consolidated indicators in calculations, about the need to distinguish when analyzing the effectiveness the proportion of the impact obtained due to noninvestment factors, about the correct choice of the basis of comparison for calculations of the efficiency of renovation operations with allowance made for the dynamics of production and about the inadvisability of adding the underamortized part of the functioning capital with the capital investments for renovation.

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Doctor of Economic Sciences I. Vikhrev (Central Scientific Research and Planning Institute for Experimental Industrial Buildings and Structures of the USSR State Committee for Construction Affairs) substantiated the assumption of the illegitimacy of dividing renovation operations into certain goals or others (as was indicated in the draft), since a set of goals is incorporated in the basis of the renovation of the operating works.

Doctor of Economic Sciences B. Smekhov (Institute of Economics of the USSR Academy of Sciences) made the suggestion to strengthen in the section on the comparative effectiveness of capital investments the principle of a national economic approach to the calculations of the effectiveness and to give recommendations on the use of this section not only in designing, but also in planning for the purpose of selecting the optimum version of the plan. He considers it necessary to include a provision on the stable estimated cost of construction in the section on the actual effectiveness.

Doctor of Economic Sciences V. Fal'tsman (Central Institute of Economic Mathematics of the USSR Academy of Sciences) proposed to apply to all calculations the probability approach to the estimate of the effectiveness, which is recommended in the Procedure for scientific research and experimental design operations, and to take into account the distributed lag of capital investments. He also spoke about the expediency of using linear programming methods when comparing the versions and about the insertion in the Standard Procedure of a paragraph which provides for the reduction of the total of the capital investments by the amount of increase of the assets intended for capital repair.

Candidate of Economic Sciences A. Bulkin (NIIinformenergomash) expressed the opinion that the regional aspect of the problem should be the subject of special procedural elaborations.

Candidate of Economic Sciences P. Sapozhnikov (All-Union Scientific Research Institute of the Organization of Management and Economics of the Petroleum and Gas Industry) emphasized that the changeover to calculations of the effectiveness on the basis of inclusive expenditures is necessary for the extractive sectors (especially those which do not have the opportunity to use in the immediate future the indicator of the net output).

Doctor of Economic Sciences N. Nikolayevskiy (VNIIneft') emphasized the particular importance for the extractive sectors of the fact that a significant portion of the capital investments is going for compensation of the planned retirement of capital and capacities. In his opinion, the inclusive expenditures should be used, as is stipulated in the draft, only when appraising new equipment, since their use in all calculations of the effectiveness of capital investments in the extractive sectors can lead to the adoption of capital-consuming versions.

Doctor of Economic Sciences D. Palterovich (Institute of Economics of the USSR Academy of Sciences), after noting the particular importance of the standards of the overall (absolute) effectiveness, which are cited in the Standard Procedure, raised the question of the subsequent elaboration of such standards in the sectorial procedures of determining the effectiveness of capital investments, which are based on the Standard Procedure, as well as in the procedures for individual

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directions of capital investments. Bearing in mind the particular shortage of manpower resources, he proposed to take into account when comparing versions the social expenditures per worker.

Doctor of Economic Sciences A. Beschinskiy (Commission for the Forecasting of Power Engineering) indicated the need to adjust world prices for raw materials (especially petroleum) and recommended the consideration of the difference in production costs, as well as the proportion of raw materials going for exports. It is expedient, in his opinion, to calculate the related costs not according to the prices, but according to the production cost. He also believes that it is necessary to develop a special procedure for elaborating the regional aspect of the calculations of the effectiveness.

Candidate of Economic Sciences A. Vitin (Scientific Research Institute of Economics attached to USSR Gosplan) said that in the draft it had been possible to eliminate a number of contradictions between the calculations of effectiveness at the national economic level and the levels of the sector and the enterprise. He also made refinements in the concept "the cost accounting level of management" and noted the particular urgency of adopting the Standard Procedure in planning and design practice. Doctor of Economic Sciences A. Tolkachev (Scientific Research Institute of Economics attached to USSR Gosplan), who spoke about the need for the intensive elaboration of sectorial instructions on the basis of the draft, rated it favorably.

Chairman of the Scientific Council Academician T. Khachaturov, who delivered the concluding speech, emphasized that the changeover to the consideration of the net and standard net output, which is set forth by the decree of the CPSU Central Committee and the USSR Council of Ministers of 12 July 1979, made it possible to recommend the criterion of the effectiveness of capital investments in the form of the increase of the national income both for the global level and for the sectorial and cost accounting level of management of the economy. He noted that it is not advisable to agree with all the remarks made during the discussion. This concerns first of all the desire to single out a special section on the regional effectiveness, the substantiation of which is the subject of an independent study. Apparently, there is no need to reflect in the Standard Procedure the manner of monitoring its use. It is not competent to give recommendations on the supplementary appraisal of living labor by means of the proportion of the public consumption funds per worker, since the public consumption funds are intended for meeting the needs of the entire population. It is hardly possible at present to give a precise answer to the question about the proportion of the impact, for which noninvestment factors account; this requires special studies, especially as this proportion does not remain stable. The suggestion on using the inclusive expenditures and world prices for individual types of extracted natural resources is to a certain extent of a sectorial nature. It is also inadvisable to stress the probabilistic nature of the calculations of the effectiveness of capital investments, which, to be sure, is justified only for substantiations of long-term investment programs and scientific research and experimental design operations.

Many specific proposals on the improvement of the third edition of the Standard Procedure were reflected during its modification; the remarks presented by the All-Union Bank for Financing Capital Investments and the Scientific Research Institute of Economics attached to USSR Gosplan were taken into account.

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The procedure, which was approved as a temporary procedure by First Deputy Chairman of USSR Gosplan V. Isayev (15 September 1980) and First Deputy Chairman of the USSR State Committee for Construction Affairs M. Chentemirov (5 November 1980), has been sent to interested organizations.

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